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WREJ-AM (Urban Contemporary)
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James I. Johnson Jr.
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WFTH-AM (Contemporary Gospel)
227 Eastbelt Blvd.
Richmond, VA 23224
804/ 233-0765

Bishop L. E. Willis
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WPCE-AM (Inspirational)
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Television

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Chairman
Tidewater Television
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WASHINGTON
Radio

Patrick Prout
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KUJ Ltd. Partnership
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KNLT-FM (Adult Contemporary)
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WISCONSIN
Radio

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WLUM-FM (Adult Contemporary)
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Gerald W. Jones
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WNOV-AM (Urban Contemporary)
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414/ 321-1007

Television

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U.S. TERRITORIES
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KAZA-AM (Spanish)
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916/ 443-2929

COLORADO

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Mrs. Magaly Fernandez
RMF Broadcasting
KCUV-AM (Latin Top 40)
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Oscar M. Laurel
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Riverdrive Mall
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210/ 727-0027

ASIAN-AMERICAN-OWNED BROADCAST STATIONS

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KCB-FM (Asian Contemporary)
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Television

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Millbrae, CA 94030
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NATIVE AMERICAN-OWNED BROADCAST STATIONS

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ARIZONA
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OREGON
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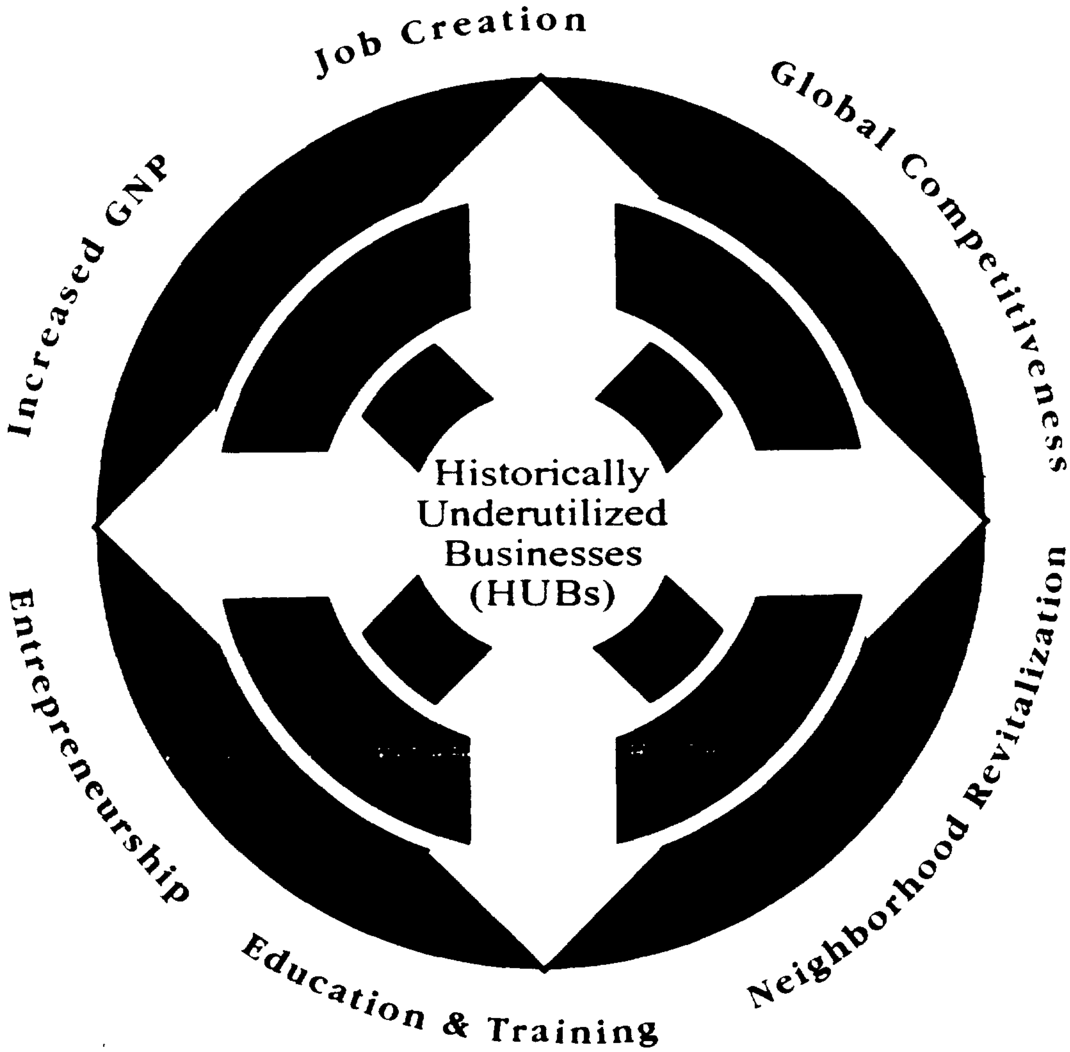
10

United States Commission on Minority Business Development



Final Report

E. Access to Capital

Capital, Still the Desperate Need

The Interim Report of the U.S. Commission on Minority Business Development determined that lack of access to capital was one of the most "formidable stumbling blocks to the formation and development of minority businesses." This was reinforced in a Wall Street Journal Supplement on "Black Entrepreneurship" dated April 3, 1992 in which The Roper Organization interviewed 472 black business owners with fewer than 500 employees and revenues up to $17 million. In ranking their major problems, "Obtaining sources of capital" and "Access to credit" were listed as first (61 percent) and second (54 percent) by the respondents. Asked whether "Black-owned businesses are impeded by a lack of access to financing," an overwhelming number, 84 percent, stated this was the major problem, even ahead of discrimination in all areas of life. This most recent finding provides sufficient evidence of the great capital gap facing our country's small and minority businesses. Without timely access to capital you can't start or grow a business, particularly growth firms being weaned off of solely government business. The Commission now believes quick implementation of an action plan to resolve the capital dilemma for all of the small and minority economic sector is critical to the problems of jobs, growth, and competitiveness facing this nation.

Interim Report Recommendations

An historic perspective on the evolution of small and minority business government financing programs was provided in the Interim Report as a back-drop to assessing current problems and anticipated future solutions. The following three recommendations were made in the Interim Report with regard to resolving some of these access to capital issues:

First, was creating a realistic strategy or plan which involved the blending of Government policies/ programs as stimuli, but using the private sector as the capital providers and decision makers.

"The Commission recommends that a national strategy for providing access to capital and credit for minorities in business be developed and implemented which is an investment strategy, not a spending strategy. Government investment must serve as a catalyst for private investment."

Second, in order to determine whether a capital gap problem exists and to determine the depth of the hole, flows of investment capital and credit must be assessed with regard to small and minority business development -- for start-up vs. existing, lifestyle vs. growth -- sources of financings.

"The Commission recommends that the Federal Reserve and other relevant agencies institutionalize, refine, and expand the national survey of small business finances that tracks the flow and sources of capital that impact the economic growth of small and Historically Underutilized Businesses. This study should be continued on a regular basis."

Third, as a means of beginning the implementation of the first two recommendations, examine the possibility of reconstituting the Small Business Investment Company (SBIC) and Minority Enterprise Small Business Investment (MESBIC -- now called Specialized SBICs) Program of the U.S. Small Business Administration (SBA).

"The Commission recommends that SBICs and MESBICs be reinvigorated to attract private investment capital and management as they are the only institutional sources of early stage, equity-type financing. The

Commission also recommends that the SBA reconsider its position on limiting pension fund investment in the SBIC program since such limitation adversely impacts long term private financing for the nation's growth firms."

The following sections of the Final Report dealing with access to capital will describe the changes that have occurred since the Interim Report was submitted and will focus on the Commission's priority areas of concern.

Sporadic Components of a National Investment Strategy Emerge

The foundation for a national investment strategy to support small and minority business owners must necessarily involve private capital market influences and government financing programs, the Executive Branch working with the Legislative to establish and implement national strategies on a timely, sense of urgency basis. In addition, individual states and localities play important roles in the effort to direct financial resources toward small and minority firms in local and regional parts of the country.

The need for such a focused strategy is evidenced by recent reports of the Bureau of the Census showing population projections into the years 2010-2050 which suggest that the geometric growth in minority populations will lead to significant increases in business formations, and that they will represent a major source of investment and economic development activity. The demographics of the U.S. population of the next century will dictate the jobs, economic growth, and technological advancements this country can achieve when competing around the globe. 58/

Tax Policy

Important investment strategies affecting small and minority businesses would include such areas as capital gains tax preferences, R&D tax credits, accelerated depreciation on new equipment, and other types of investment tax allowances such as might be encompassed in Enterprise Zones to assist specifically designated geographic areas with economic revitalization.

The tax policy portion of a national investment strategy is one which the President has sought since he took office. The Economic Report of the President published February, 1992 states:

"The President has repeatedly proposed reducing the tax rates on capital gains. This will encourage entrepreneurial activity, create new products, new methods of production, and new businesses. These, in turn, will generate new jobs. A capital gains differential will reduce the tax bias against equity financing and the over all cost of capital, thereby increasing investment and growth. Moreover, the Administration has supported a zero capital gains tax for areas designated as Enterprise Zones to spur investment and encourage entrepreneurial activity in inner cities and rural areas.

Innovation increases productivity growth and the standard of living. The Administration has advocated making the research and experimentation tax credit a permanent part of the tax code and has proposed large increases in both basic and applied research and development spending in the Federal budget. 59/

58/ Projections of the Population of the United States, Series P-25, Bureau of the Census, U.S. Department of Commerce, 1986-1992.

59/ Economic Report of the President, February 1992.

While the President set the broad outline for an investment support agenda for small and minority businesses, other public policy players have also focused specifically on this issue.

An important part of this system for developing a national investment strategy for small and minority business was set by Senator Dale Bumpers when on November 7, 1991 he and various House and Senate members introduced the "Enterprise Capital Formation Act of 1991," a bill establishing a capital gains tax cut for long term investments in high risk, small businesses. The concept of the bill was to focus on small business within specific size thresholds that are in an "active trade or business" and would be geared to providing incentives through capital gains tax relief to small business owners and their long term investors, including venture capital institutions.

In a further refinement of capital gains initiative, a bill entitled the Minority Enterprise Development Act Of 1992 (H.R. 4221) was introduced by Congressmen John LaFalce and Andy Ireland on February 14, 1992. This bill would target a capital gains preference to firms that specialize in minority business venture funding (i.e., MESBICs) as well as for individual investors (including owners) in minority firms of a specific size threshold. An additional refinement in the proposal is that a long term capital gain could be deferred for a period of time if the gain is reinvested in "qualified replacement property," small and disadvantaged businesses, and eligible venture capital companies. It is made clear that deductions elected and capital gains excluded would not be treated as a preference item for purposes of the alternative minimum tax.

The Commission recommends encouraging long term risk investing for small and minority bsinesses using the aforementioned concepts, particularly those capital gains proposals that would bring maximum value-added incentives to such growth, job creating businesses.

Other tax oriented suggestions developed through the Commission's outreach developed in the last two years, deals with placing long term equity type investing on a balanced playing field with short term debt incentives already prevalent in the tax code. For example, dividends paid to shareholders of small and minority firms would be deductible as a business deduction much as interest payments are currently expensed. Also, interest income on long term loans could be treated at a more preferential tax rate for those financial institutions that provide capital to small and minority businesses.

Regulatory Changes to Reduce Costs of Capital

The President charged in his most recent State of the Union speech that each of the Departments of the Federal Government review and halt or change any regulations which might stymie growth.

The U.S. Securities and Exchange Commission's regulatory and monitoring oversight with regard to private placements, public offerings, public venture capital firms (Business Development Companies), and its relationship with state securities regulatory bodies all affect the costs, timing, and therefore the flows of equity capital to small and minority growth businesses.

One of the most detailed delineation of regulatory changes for small business in the realm of raising equity-type capital has come from the SEC. The Chairman of the SEC, Richard C. Breeden, announced several small business initiatives on February 18, 1992 that would also affect minority growth businesses.60/ These initiatives included:

60/ Remarks of Richard C. Breeden, Chairman U.S. Securities and Exchange Commission, National Press Club, Washington, DC, February 18, 1992.

allowing issuers of "seed capital" offerings to issue up to $1 million per year in unrestricted securities and be exempt form SEC registration requirements, raising the annual ceiling for Regulation A limited public offerings from $1.5 to $5 million using a simplified disclosure documents and procedures, providing new simplified reporting systems and forms for initial public offerings (IPOs) and repeat offerings of small companies below a designated size threshold, raising the eligible volume of "liquid" holdings of open-end mutual funds from 10 to 15 percent enabling significant new investments in U.S. small firms, seeking comment to make it easier for venture capital funds to be created with individual and institutional investor ownership (including increasing the current limitations on public investor funds raised by SBICs, MESBICs, and Business and Industrial Development Companies).

In addition, Chairman Breeden recommended consideration of legislative initiatives which would create a new class of venture capital fund that would be exempt from registration as a mutual fund as long as its investors are highly sophisticated individuals or entities such as pension fund, insurance companies, or other such long term investors.

Finally, in an extremely imaginative approach the SEC proposes "to help those attempting to securitize the receivables of small businesses into debt securities that can be sold into a liquid secondary market." This would entail a pooling of the securities of smaller firms into larger packages that can be underwritten and purchased by large institutions and other purchasers. In Chairman Breeden's words, "By seeking to adapt the techniques of securitization to small business loans -- especially short term debt instruments -- we have an opportunity to facilitate a market that will improve the availability, hopefully reduce the cost of capital for small firms." The February, 1992 Federal Reserve Bulletin describes how this securitization program might work and for small and minority business borrowers it might be one of the most important initiatives ever contemplated. This may even provide a solution to those small and minority businesses that have difficulty finding banks willing to borrow against good account receivables from their prime or subcontracting activities with the federal or state agencies. 61/

As a prime example of the sense of urgency shown by Chairman Breeden's leadership, these comprehensive proposed changes were submitted for public comment and published on March 20, 1992. The more than 250 pages were written in direct and simple business style.

The U.S. Commission on Minority Business Development hails and applauds the vigorous and bold way the SEC has sought to help small and minority business overcome their access to capital problems with both short term and longer term strategies. In particular for the first time recognizing the important distinction in establishing a simplified reporting system for "small companies" rather than "small offerings." We recognize this as a major advancement in the treatment of small and minority business within the regulatory scope of the SEC statutes. The willingness to assist in the redevelopment of the U.S. venture capital industry as the institutional means to put private venture investment know how and management into new and growing firms is an outstanding example of public policy working with the private sector to help our country compete in the global market-place.

61/ Barbara Kavanagh, Thomas B. Boemio and Gerald A. Edwards, Jr., "Asset-Backed Commercial Paper," Federal Reserve Bulletin, February 1992.

The Commission supports the small business recommendations of SEC Chairman Breeden and urges implementation of all the changes involving lower costs of compliance, easier development of venture capital funds, and a securitization program for commercial paper of small firms.

In particular, we urge the SEC to assure that the largest number of growth businesses be given relief and that the threshold for "small business" be set at a $25 million or less market capitalization level.

In addition, we would encourage legislative changes to permit publicly owned venture capital organizations to be established with the least amount of regulatory constraints as is feasible under the SEC's mandate.

Financial Institutions and Developing Data to Set Policy

The Federal Reserve Board's responsibilities deal with monetary policies and monitoring/changing interest rates that affect the banking system and private sector borrowings. Such influence on interest rates also affect indirect flows of investment capital. In addition, regular monitoring of flows of funds involving the banks and businesses are measured and studied thoroughly by the Federal Reserve Board's research staff and the results of such research affect the policy directions of the Board, and thus the costs and flows of capital to small and minority firms.

The FDIC and the Comptroller of the Currency influence flows of long term credit to small and minority businesses by the assessment process when they review bank policies and portfolio risks. In addition, the Comptroller's regulation of the Comunity Reinvestment Act affects the flows of funds by financial institutions into designated areas directly impacting minority business. The assessment and review procedures are particularly significant at this point in time since the oversight fallout from the recent mismanagement of some of the nation's financial organizations have a particularly disproportionate effect on small and minority business borrowers.

The Federal Reserve Board, Federal Deposit Insurance Corporation, and Comptroller of the Currency all have major roles in determining the future smoothness or difficulty for small and minority business in accessing affordable and available credit opportunities.

In the October, 1990 issue of the Federal Reserve Bulletin, a monthly financial institution economic and flow of funds report of the Federal Reserve Board, a research article was published entitled "Banking Markets and the Use of Financial Services by Small and Medium-Sized Businesses."[62/] The article addresses issues of where small firms go to obtain financial services (including such credit services as leasing, lines of credit, mortgages, motor vehicle loans, equipment loans, etc.) and what geographic area constitutes a particular market for financial services. A research and survey sample of 3,600 small firms was developed by the Federal Reserve Board working together with the SBA. Some of the results indicated that small (0-49 employees) and medium-sized (50-499 employees) businesses prefer to do business with local financial institutions. For example, the research indicated that for all financial services, with the exception of leasing, at least 75 percent of the financial institutions were within thirty miles of the firms that use them and the median distance between the institutions and the firms was less than eight miles for twelve of the thirteen credit service products explored. The study also found that..."Rural firms use

62/ Gregory E. Elliehausen and John D. Wolken, "Banking Markets and the Use of Financial Services by Small and Medium Sized Businesses." Federal Reserve Bulletin, October 1990.

more non-local financial institutions than do urban firms perhaps because the demand in rural areas for some services may be too small for institutions to offer them." Clearly, local commercial banks were found to be the main suppliers for most of the financial services used by small and medium-sized businesses. Businesses that are small and minority need to be near their financial service providers. The Commission has confirmed this important access to capital element throughout its hearings around the country.

In terms of how many minority owned banks are there to service their local minority population, the following data may provide an important perspective. At year end 1990, there were some 13,000 U.S. banks with $3.8 trillion in assets. There were some 106 minority owned banks as of September, 1991, with assets totaling $11 billion and equity of about $600 million participating in the Federal Government's Minority Bank Deposit Program (MBDP). The MBDP represents minority banks eligible to receive deposits from federal agencies and thus provide significant assets to encourage the continued operations of minority banks in local areas. The following represent the minority ownership status of this group of banks: 37 Black, 30 Asian American, 29 Hispanic American, 6 Women, 2 American Indian, and 2 Multiracial. Nearly 50 percent of the banks held over $50 billion in assets and represented 80 percent of all assets held by minority owned banks in the MBDP. Twenty-eight states, Puerto Rico, and the Trust Territories have minority owned banks with the top five states ranked by assets of minority owned banks in the MBDP being: California, Texas, Florida, New York, and Illinois. The number of minority banks in the MBDP located in these top five states range from twenty-one in California to four in New York. Twelve of the states with minority banks in the MBDP have one bank located in them.[63/]

The Federal Reserve Board research indicates the need to have local financing sources readily available for local minority businesses. The information on minority banks in the MBDP suggest that they will not be able to handle the demand that the growing minority population will place on them for increased, efficient cost of capital financial services, particularly in the credit and business lending areas. In the first nine months of 1991, only four new minority banks were added to MBDP, two Black, one Women and one Asian owned, while in 1990 five banks were added to the minority bank listing, one Black and four Asian owned. The exponential growth of the "minority" population between now and the year 2010 makes it imperative that all local commercial banks and nonbank banks recognize the profitable economic opportunities from this vital sector of local, regional, and national economies. Again, the Commission strongly believes that it is in the economic interest of the restructured financial services industry to recognize and seek the business of the fastest growing segment of our economy, small and minority owned firms.

Once again, we have found that a lack of sufficient data to determine national needs has been a constant obstacle to public policy changes in the area of capital access. Perhaps as a result of our continuing persistence or maybe the time was just appropriate, a new statute has been passed to address this issue.

63/ Data on "Selected Assets and Liabilities of Minority-Owned Banks by Assets, As of September 30, 1991," Federal Reserve Board, January 1992.

The Comprehensive Deposit Insurance Reform and Tax Payer Act of 1991 (P.L. 102-242) was enacted on January 3, 1992 and addresses some significant first time legislative and policy issues to benefit small and minority business. 64/ The Commission believes it is imperative that the federal agencies regulating U.S. financial institution adhere to the language and intent of this particular section of the bill. The bill provides:

"Sec. 122. Small Business and Small Farm Loan Information (a) In GENERAL - Before the end of the 180 day period beginning on the date of the enactment of this Act, the appropriate Federal banking agency shall prescribe regulations requiring insured depository institutions to annually submit information on small businesses and farm lending in their reports of condition. (b) CREDIT AVAILABILITY - The regulations prescribed under subsection (a) shall require insured depository institutions to submit such information as the agency may need to assess the availability of credit to small business and small farms. (c) CONTENTS - The information required under subsection (a) may include information regarding the following:

(1) The total number and aggregate dollar amount of commercial loans and commercial mortgage loans to small business.

(2) Charge-offs, interest, and interest fee income on commercial loans and commercial mortgage loans to small businesses.

(3) Agricultural loans to small business."

In addition, the bill requires the Federal Reserve Board to annually collect and publish information on the availability of credit to small businesses. The information shall, "to the extent practicable" include information on commercial loans to small business, small farms, and minority owned small business. Such information is to be broken down by categories of small businesses, by annual sales volume and "for small businesses in existence for less than 1 year" and the data should be given for each geographic region of the U.S. The Federal Reserve board is to give consideration to the need to minimize reporting costs on financial institutions. Jobs created or maintained represent a significant part of the reasons for implementing public policy incentives and strategies in economic development. It is therefore critical that job data be collected in connection with the flow of capital to small and minority businesses.

Reduced deposit insurance premiums for insured depositories is proposed in the bill to increase lending and deposit taking in "distressed areas." Incentives could reduce an institution's total insurance premiums by up to 20 percent (50 percent if the institution qualified under the bill as a "community development organization"). Congressional appropriations approval would be needed to implement these incentives.

64/ "The Comprehensive Deposit Insurance Reform and Taxpayer Protection Act of 1991," U.S. House of Representatives, H.Report. 102-407 (November 27, 1991).

The Commission strongly recommends implementation of those sections of the Comprehensive Deposit Insurance Reform and Taxpayer Act of 1991 dealing with increased reporting and evaluation of small and minority business access to capital and credit. In this regard, data must be developed on the number and type of jobs generated or maintained through the financing of small and minority owned businesses. Further, the Commission supports incentives to reduce a financial institution's total insurance premiums if they are located in areas of highly concentrated minority businesses.

Examples of State and Local Involvement

Individual states as highlighted in the Interim Report are playing more significant parts in the local and regional elements of a national strategy for helping small and minority businesses access growth capital.

To expand this national strategy for the delivery of financial services to small and minority firms, we note that local and state governmental bodies are coming together for such purposes. As an illustration, the State of Maryland through the Maryland Small Business Development Authority (MSBDA) has recently expanded its small business financing programs to permit financial institutions to be certified as "preferred lenders," thereby using the state's guaranty authority and reducing the decision making time for borrowers from months to only weeks. Also, the state has piloted a new outreach function where a county economic development agency becomes an agent for the packaging of loans for small an minority businesses using state programs. Further, recognizing the growing number of technology oriented minority firms and their relation to job creation, the Maryland House of Delegates has passed, as of July 1, 1992, an expanded authority for MSBDFA to assist technology firms. This new policy also recognizes the growing population of minority businesses in the State whose owners have scientific and technical engineering skills. Business census data indicate that Maryland is the top state in terms of Black owned businesses with 21,678 firms representing 8.9 percent of total businesses. In 1991, MSBDFA provided loan guarantees in excess of $5 million to 30 firms leading to the creation or retention of 1,054 jobs. In addition, Maryland has received a 35-40 percent return on its investments over the last ten years.

Within Maryland, local governments working with Chambers of Commerce are developing private funding sources such as the Jim Rouse Entrepreneurial Fund to assist new small and minority businesses that can not be funded through existing banking requirements. Job creation is a motivating force behind this local effort.

Another state, Michigan, represents an outstanding example of what can be accomplished through government/private sector partnerships working towards common achievable goals. Through its Michigan Strategic Fund (MSF), the State of Michigan supports six active programs reflecting six distinct national areas of major concern for small and minority business. These encompass:

- Capital Access Program - Since mid 1986, more than 1,314 companies have received over $64 million under this program which links 87 banks (85 percent of statewide commercial assets) to small business.

- BIDCO (Business and Industrial Development Company) Program - BIDCOs with $51.1 million in initial capital, $17.9 representing MSF, have invested in 38 companies.

- The Seed Capital Program - founded three private seed capital funds initiating $8.2 million since 1987 in a total of 34 new start-up companies with high growth potential.

- IDRB (Industrial Development Revenue Bond) Program - issued during 1991 bonds on behalf of 17 manufacturers for $62 million.

- Inducement Loan Program - provided nine loans in past five years generating over $200 million in private investments to allow out of state companies to locate new manufacturing plants in Michigan thereby creating 1,600 jobs.

- Research and Technology Program - joint ventured in 1991 with a $13 million award from the National Institute of Standards and Technology to create the Midwest Manufacturing Technology Center which is expected to serve over 1,800 firms in the State with state of the art manufacturing processing techniques.

Other examples of how local areas are utilizing new initiatives to assist the capital and credit needs of minority small firms can be found in the Midwest. The Women's Business Development Center in Chicago, Illinois has created a Women's Business Bank Loan program, a revolving guaranteed loan fund that is backed by a collateral pool. The collateral pool backs each loan for 50 percent of its value. If the loan defaults, the collateral pool is tapped to repay 50 percent of the unpaid balance. Local foundations, corporate sponsors, and banks are capitalizing the pool and are creating a $1 million line of credit. The average size loan will be maintained at $20,000. Generally, this small size loan is not of sufficient transaction size to permit banks to economically assess the deal without some kind of pooled assets or third party guarantee to secure the loan. Five loans have been secured including the following businesses: an indoor garden serving local restaurants, a stone installation and restoration company, a wholesale hors d'oeuvres caterer, a manufacturer's representative for clothes designers, and a beauty and skin care firm.

Another major problem facing financial institutions when they consider providing funds at the local level is the liquidity of the loan. Can the bank or financial organization sell off their portfolio in a secondary market transaction? In Minneapolis, Minnesota, the Community Reinvestment Fund (CRF) has received an investment of $1 million from the John D. and Catherine T. MacArthur Foundation for a secondary market for community development loans. The Foundation's low interest funding enables the CRF to purchase market rate loans from local financial institutions, thereby freeing up more capital to be reinvested in new transactions within the community. The CRF has purchased or contracted to purchase nearly 300 loans totaling more than $3.2 million from Minnesota, Wisconsin, Illinois, and Michigan organizations.

The Commission recommends that the responsible agencies of federal, state, and local governments expand their support of small and minority businesses and encourage the development of new local privately operated institutions that will service the financial and business needs of growth businesses in their areas.

Technology and Growth

The Office of Science and Technology Policy (OSTP) in the White House is responsible for developing an action plan for technology development through increased cooperation between the funding mechanisms of the Federal Government and private sector institutions. Many start-up small and minority businesses with scientific or technology orientations are unable to receive their fair share of Government technology funding because they must compete with large businesses, universities, and other institutions that command more resources to deal with this issue of accessing research dollars.

Within the Department of Commerce the Under Secretary for Technology coordinates policy issues on productivity and technology for U.S. businesses, and programs at National Institute of Standards and Technology provide grants for applied research and technology development.

A strategy for assisting the start-up and growth of small high technology businesses has not had formalized, cohesive, and coordinated development at the White House level in recent times. With ever greater numbers of our "minority" population increasing their technical skills and graduating with advanced degrees in science and engineering, the potential for innovation and technology advancement is at this country's highest peak and must be mined as quickly as possible.

OSTP has made important strides during 1991 and 1992 to support small and minority high technology enterprises. First, for what is believed to be the first time, a full time White House Fellow staff member has been charged with focusing solely on small high technology enterprises and their impact to the nation. Second, a study has been drafted which describes in detail the number and range of technologies of Small High Technology Enterprises, including a distribution by technology orientation and geographic spread. Third, the study describes the principal financing mechanisms used by Small High Technology Enterprises and the importance of this distinct sector to the U.S. economy. Finally, the study investigates the problems and impediments to the formation, growth, and development of Small High Technology Enterprises and the key elements to resolve these issues.

OSTP has developed information indicating there are about 75,000 small (less than 500 employees) high technology firms in the U.S. This sector is "unique," they innovate more than larger firms, producing two to four times the number of products and patents per employee and R&D dollar; create jobs contributing to their proportionate share of new compared to other economic sectors; grow rapidly increasing assets, export sales, and tax payments at 23 percent, 136 percent, and 233 percent compound annual rates, respectively; and increase productivity of all businesses with innovative products.

Additionally, beginning February 12, 1992, the Department of Commerce together with the Department of Energy, Department of Transportation and NASA, launched the "National Technology Initiative" at the Massachusetts Institute of Technology, kicking off a series of regional grass roots programs with local industry and educational institutions. One of the major topics explores the problems of "Small U.S. High Technology Business and Financing."

Another component of these National Technology Initiatives included the Small Business Innovation Research (SBIR) program. The Commission's Interim Report highlighted the significance and impact of SBIR to a national agenda for developing new commercially viable technology prototypes and businesses.[65/] This is a three phase program that provides an average amount of $50,000 for new ideas and prototype potential in Phase I, up to $500,000 for further development of the commercial concept in Phase II, and then the bringing to market of the product or service with private venture funds and/or federal contracts in Phase III. For fiscal year 1990, the eleven participating Federal Agencies awarded $460.7 million through the SBIR program; this represented a 6.7 percent increase over the approximately $431.7 million obligated in FY 1989. Phase I awards

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65/ Small Business Innovation Development Act - Eight Year Results. Office of Innovation, Research and Technology, U.S. Small Business Administration, July 1991.